Senate

General Assembly **File No. 91**

February Session, 2008 Substitute Senate Bill No. 374

Senate, March 20, 2008

The Committee on Planning and Development reported through SEN. COLEMAN of the 2nd Dist., Chairperson of the Committee on the part of the Senate, that the substitute bill ought to pass.

AN ACT CONCERNING FINANCIAL AND MANAGEMENT AUDITS OF MUNICIPALITIES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Section 2-90 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2008*):

(a) The Auditors of Public Accounts shall organize the work of their office in such manner as they deem most economical and efficient and shall determine the scope and frequency of any audit they conduct.

(b) Said auditors, with the Comptroller, shall, at least annually and as frequently as they deem necessary, audit the books and accounts of the Treasurer, including, but not limited to, trust funds, as defined in section 3-13c, and certify the results to the Governor. The auditors shall, at least annually and as frequently as they deem necessary, audit the books and accounts of the Comptroller and certify the results to the Governor. They shall examine and prepare certificates of audit with respect to the financial statements contained in the annual reports of the Treasurer and Comptroller, which certificates shall be made part of such annual reports. In carrying out their responsibilities under this section, said auditors may retain independent auditors to assist them.

(c) Said auditors shall audit, on a biennial basis if deemed most economical and efficient, or as frequently as they deem necessary, the books and accounts of (1) each officer, department, commission, board and court of the state government; **[**,**]** (2) all institutions supported by the state; and (3) all public and quasi-public bodies, politic and corporate, created by public or special act of the General Assembly **[**and**]** not required to be audited or subject to reporting requirements, under the provisions of chapter 111, except that the auditors may audit the books and accounts of any municipality that has a population of more than seventy-five thousand, as determined by the most recent decennial census, and that receives state funding in an amount that is more than thirty-five per cent of the annual operating budget of such municipality. Each such audit may include an examination of performance in order to determine effectiveness in achieving expressed legislative purposes. Each such audit of a municipality shall include any recommendations for management efficiencies and financial improvements. The auditors shall report their findings and recommendations to the Governor, the State Comptroller, the joint standing committee of the General Assembly having cognizance of matters relating to appropriations and the budgets of state agencies, and the Legislative Program Review and Investigations Committee.

(d) The Auditors of Public Accounts may enter into such contractual agreements as may be necessary for the discharge of their duties. Any audit or report which is prepared by a person, firm or corporation pursuant to any contract with the Auditors of Public Accounts shall bear the signature of the person primarily responsible for the preparation of such audit or report. As used in this subsection, the term "person" means a natural person.

(e) If the Auditors of Public Accounts discover, or if it should come to their knowledge, that any unauthorized, illegal, irregular or unsafe handling or expenditure of state funds or any breakdown in the safekeeping of any resources of the state has occurred or is contemplated, they shall forthwith present the facts to the Governor, the State Comptroller, the clerk of each house of the General Assembly, the Legislative Program Review and Investigations Committee and the Attorney General. Any Auditor of Public Accounts neglecting to make such a report, or any agent of the auditors neglecting to report to the Auditors of Public Accounts any such matter discovered by **[**him**]** <u>such agent</u> or coming to **[**his**]** <u>the</u> knowledge <u>of such agent</u> shall be fined not more than one hundred dollars or imprisoned not more than six months or both.

(f) All reports issued or made pursuant to this section shall be retained in the offices of the Auditors of Public Accounts for a period of not less than five years. The auditors shall file one copy of each such report with the State Librarian.

(g) Each state agency shall keep its accounts in such form and by such methods as to exhibit the facts required by said auditors and, the provisions of any other general statute notwithstanding, shall make all records and accounts available to them or their agents, upon demand.

(h) Where there are statutory requirements of confidentiality with regard to such records and accounts or examinations of nongovernmental entities which are maintained by a state agency, such requirements of confidentiality and the penalties for the violation thereof shall apply to the auditors and to their authorized representatives in the same manner and to the same extent as such requirements of confidentiality and penalties apply to such state agency. In addition, the portion of any audit or report prepared by the Auditors of Public Accounts that concerns the internal control structure of a state information system shall not be subject to disclosure under the Freedom of Information Act, as defined in section 1-200.

This act shall take effect as follows and shall amend the following sections:		
Section 1	*July 1, 2008*	2-90

PD *Joint Favorable Subst.*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either chamber thereof for any purpose:

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 09 $	FY 10 $
Auditors	GF - Cost	Significant	Significant
Comptroller Misc. Accounts (Fringe Benefits)[1]	GF - Cost	Significant	Significant

Note: GF=General Fund

Municipal Impact: None

Explanation

The bill allows the Auditors of Public Accounts to audit any municipality with a population above 75,000[2] that receives over 35% of its annual operating funds from the state. The Auditors must prepare a report with recommendations on programmatic savings, efficiencies, and financial improvements.

Currently, Bridgeport, Hartford, New Haven and Waterbury meet the criteria for the audit established by the bill. There are two approaches to performing an audit of these cities; 1) hire additional full-time staff, 2) contract with a certified public accounting (CPA) firm to perform this work. Both approaches will result in a significant cost to the Auditors of Public Accounts.

[1] The fringe benefit costs for state employees are budgeted centrally in the Miscellaneous Accounts administered by the Comptroller. The first year fringe benefit costs for new positions do not include pension costs. The estimated first year fringe benefit rate as a percentage of payroll is 25.36%. The state's pension contribution is based upon the prior year's certification by the actuary for the State Employees Retirement System (SERS). The SERS fringe benefit rate is 33.27%, which when combined with the rate for non-pension fringe benefits totals 58.63%.

[2] Based on the most recent 10-year census, the municipalities meeting the population criterion are Bridgeport, Hartford, New Haven, Norwalk, Stamford, and Waterbury.

If the Auditors biennially audited the 4 cities[3], the agency would need to hire 8 accountants (4 accountants per city), plus a municipal audit supervisor. The annualized cost to hire 9 new accountants would be approximately $824,000[4]. The FY 09 cost is estimated to be $450,000 based on half-year funding of the Municipal Audit Unit.

If the Auditors determine that biennial audits of these cities are not warranted, it is expected that they would contract a CPA firm to perform periodic city audits. The costs to audit one large city could range from $750,000 - $1.5 million. In 2000, the Auditors contracted a CPA firm to conduct a performance audit of the University of Connecticut Health Center at a cost of $582,000.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the out years.

[3] For example, audit Bridgeport and Hartford in FY 09, then New Haven and Waterbury in FY 10.

[4] The fringe benefit costs for state employees are budgeted centrally in the Miscellaneous Accounts administered by the Comptroller. The first year fringe benefit costs for new positions do not include pension costs. The estimated first year fringe benefit rate as a percentage of payroll is 25.36%. The state's pension contribution is based upon the prior year's certification by the actuary for the State Employees Retirement System (SERS). The SERS fringe benefit rate is 33.27%, which when combined with the rate for non-pension fringe benefits totals 58.63%.

OLR Bill Analysis
sSB 374

AN ACT CONCERNING FINANCIAL AND MANAGEMENT AUDITS OF MUNICIPALITIES.

SUMMARY:

This bill allows the auditors of public accounts to audit the books and accounts of any municipality with over 75,000 people as of the most recent 10-year census. The auditors may audit the municipality if it receives over 35% of its annual operating funds from state sources. Their reports must include any recommendations they have to run the municipality more efficiently or improve its financial condition. The municipalities meeting the population criterion are Bridgeport, Hartford, New Haven, Norwalk, Stamford, and Waterbury.

Under the bill, the auditors must treat their municipal audit reports the same way they treat those for state agencies, state-supported institutions, and state quasi-public agencies. Consequently, the auditors must submit each municipal audit to the governor, comptroller, and the Appropriations and Program Review and Investigations committees and file one copy with the State Library. They must also keep the reports on file for at least five years.

The audits conducted under the bill are in addition to the annual municipal audits conducted by independent auditors. By law, all municipalities must retain these auditors to review their financial statements. The auditors must submit certified copies of the audit report to various officials, including the Office of Policy and Management secretary, who must review the audits to determine if they were properly prepared and for evidence of unsound or irregular financial management practices.

EFFECTIVE DATE: July 1, 2008

BACKGROUND

Related Bill

sSB 377, which the Planning and Development Committee reported favorably to the floor, requires all municipalities to detect and address cumulative budget deficits.

COMMITTEE ACTION

Planning and Development Committee

Joint Favorable Substitute
Yea 17 Nay 2 (03/05/2008)